EAGLE STAR

Market Comment

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In this, our first investment comment of the new year, we are taking the opportunity to look back at 2001 as a whole. We would also like to wish all of our readers a very happy and prosperous new year.

Overview

New Year's Day brought an end to one of the most turbulent years experienced in quite a while. Such events as the foot & mouth disease outbreak in the spring, the terrorist attacks on New York and Washington on September 11th and the subsequent War on Terror waged in Afghanistan held our attention for weeks at a time. From an investment perspective, inevitably there was a knock-on effect from some of these events, particularly in the immediate aftermath of September 11th. However, it is important to bear in mind that equity markets were already performing poorly world-wide up to that point. The US economy had been struggling all year against a rapid slowdown in activity, particularly in the technology sector. This led to a series of interest rate cuts in an attempt to stimulate economic growth, without conspicuous success, though the consumer sector helped by continuing to spend. Economic growth elsewhere in the world was also slowing. During the ten days after September 11th equity markets suffered a large sell-off, the Dow Jones Index falling 14.3% during that period.

Central banks across the world were quick to recognise the potential of the terrorist attacks to slow economic growth even further and a swift round of interest rate cuts followed, in both the US and Europe. Announcements of substantial potential increases in US government spending and some tax cuts also helped to raise hopes that a prolonged recession would be avoided. Most markets reached their low points on September 21st, from which time a discernible improvement in confidence gathered force, despite the release of some more poor economic figures. As can be seen in the table below, equity markets made strong gains over the last three months of the year, repairing a good deal of the damage done in earlier months. Most investors now expect to see economic recovery during 2002, creating a more benign background for investment markets and, hopefully, better returns for investors on their funds.

Bond markets overall enjoyed a strong 2001, though the pattern was somewhat different than that of the equity markets. Bonds tend to perform well against a background of weaker economies, particularly when accompanied by low inflation. Thus, the circumstances of the first nine months of the year helped to push bond prices steadily ahead. There were some fears during the second quarter that the pace of interest rate reductions might actually prove to be inflationary but these died quickly away as economic growth continued to slow down. By the end of September, bonds were handsomely outperforming equities on the year to date. Prices continued to rise during October, before suffering a partial reversal during November and December. Better economic news and rising optimism about the prospects for 2002 took some of the gloss off bond returns. Overall, however, bond investors had reason to be pleased with the year.

Market Performance

Table 1 below shows the movements in selected markets during 2001 as a whole and during the last quarter of the year.

Table 1

Market	Index	% Return 31/12/2000 to 31/12/2001		% Return 30/09/2001 to 31/12/2001	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	-13.0	-8.2	10.3	12.8
US	NASDAQ	-21.1	-16.7	30.1	33.1
Europe	FT/S&P Europe Ex. UK	-19.5	-19.5	14.1	14.1
Ireland	ISEQ	-0.3	-0.3	14.1	14.1
UK	FTSE 100	-16.2	-13.9	6.4	7.6
Japan	Topix	-19.6	-26.1	0.9	-6.6
Hong Kong	Hang Seng	-24.5	-20.3	14.5	17.2
Euro Bonds	Merril Lynch Euro over 5 year	5.8	5.8	0.8	0.8

Market Outlook

- The Federal Reserve performed a dramatic easing of monetary policy during 2001, with interest rates cut to below 2%, a forty-year low. Other central banks also lowered rates, moves which were possible due to subdued inflation pressures globally.
- Cutting interest rates will help to reflate the major economies but they always act with a lag. The recovery, when it comes, could also appear patchy at first, as many sectors still have an overhang of capacity built up during 1999/2000.
- Investors are keenly watching economic data to ascertain where we are in this global downturn/recovery cycle; currently it is felt that we are at the low point for the global economy and interest rates.
- Given the extent of the stimulus we have seen, especially in the US, equity investors remain happy to sit through negative earnings' reports in

anticipation of a recovery in corporate profits over the next twelve months.